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TAGS: ETRD EINV ECON PREL MA SA
SUBJECT: MADAGASCAR RECEIVES QUESTIONABLE SAUDI INVESTORS

¶1. (SBU) SUMMARY: A group of questionable Saudi investors has signed an agreement with Madagascar's High Transitional Authority (HAT) allegedly to invest 2 billion dollars (over 20% of GDP) in Madagascar. To further sweeten the deal, the Saudi investors plan to export large quantities of staple commodities to Madagascar, which the HAT asserts will lower prices by 40% - and put them in direct competition with local producers and existing importers, increasing pressure on the foreign exchange market unless the promised FDI inflows offset the resulting increased demand for foreign currency. The deals have aroused considerable suspicion despite HAT-encouraged positive media coverage, both for their questionable economic sense and for their new engagement with historically distant Saudi Arabia. The whole thing sounds bogus to us, amounting to little more than a PR effort to portray the isolated, illegitimate HAT as not entirely without foreign friends - or hope. END SUMMARY.

MASSIVE INVESTMENT PLAN LACKS DETAIL

¶2. (SBU) A delegation of three Saudi investors visited Madagascar from May 2 to 7, and were personally welcomed on arrival by HAT Minister of Foreign Affairs Ny Hasina Andriamanjato. The group consisted of Sheikh Nasser Abdullah Al Mushaeghay, President of the Union of Saudi Investors; Najee Khalil (a Sudanese National), Vice-President of the same organization; and Ayman Suliman, Chief Executive of Click Holding. They announced their intention to invest in hotels, communications, energy, cement, agro-business, and oil refining, with projects totaling up to USD 2 billion. HAT Prime Minister Roindefo Monja signed a partnership agreement with the investors on May 6, declaring that the deal does not break any current agreements or obligations, and will instead compliment other efforts to develop the country. A Malagasy-Saudi Chamber of Commerce reportedly will soon be created to promote the partnership between the two countries.

¶3. (SBU) If delivered, A USD 2 billion investment in these sectors would have a significant impact on Madagascar's balance of payments since it represents over 20 percent of GDP. The highest rate of FDI inflows previously seen in Madagascar was in 2007, at around 10 percent of GDP, in connection with large foreign-operated mining projects. As happened in 2007 and 2008, this influx of foreign currency would cause the ariary to appreciate, and drive down inflation - but it would not overcome the Malagasy economy's low absorption capacity in terms of labor and capital goods. As a result, much of the investment would lead to increased imports of capital goods, further widening the current account deficit.

LOW-COST STAPLE GOODS

¶4. (SBU) While details remain suspiciously sketchy on the investment front, a near-term plan to import large amounts of low-cost staple goods appears to be moving forward. The Saudis plan to begin exports to Madagascar by May 20, starting with 25,000 tons each of

Saudi Arabian cement, Egyptian cooking oil, Brazilian sugar, and Turkish flour. These large imports of staple commodities will, in some cases, dramatically increase the supply on the local market and result in lower prices; the HAT Government predicts a 40% drop. These suspiciously round figures represent a 5-fold increase in imports of flour over 2008, a 55 percent increase in cooking oil, a 21 percent increase in sugar, and a 6 percent increase in cement. To ensure that these imports will actually impact local prices, the Saudi investors have also requested a tax exemption from the HAT Government.

¶5. (SBU) If these quantities of imports do materialize, local producers and local importers will not be able to compete, particularly if the imports benefit from a tax exemption. As a result, local businesses will likely be driven out of these markets, and the politically volatile former TIKO monopoly (of former President Marc Ravalomanana) will simply be replaced by a de facto foreign monopoly. In addition, the receipts of the sales will need to be repatriated to Saudi Arabia, typically within 90 days after the delivery. There will thus be increased demand for foreign currency and pressure on the foreign exchange market, leading to a further depreciation of the already-falling ariary (it has lost 21.6 percent of its value against the US dollar in the last year alone). If the current account deficit caused by the increased imports is offset by the promised investment inflows, there will be less threat of depreciation, but the two elements of this deal (the USD 2 billion investment and the staple goods imports) do not yet appear to be firmly linked.

A HEALTHY DOSE OF SKEPTICISM

¶7. (SBU) COMMENT: Skepticism is further heightened by the fact that

these three investors, and their respective organizations, are complete unknowns in Madagascar. They travelled on commercial air, do not appear anywhere on the Internet, and were unable to convince even the most pro-HAT newspaper that their offer was truly legitimate; in a country that is already suspicious of the Arab world's intentions, there have even been allegations (as yet unsubstantiated) of ulterior motives including money laundering or other illicit financial activities. PM Monja responded to these rumors publicly, denying that the investments had any connection with money laundering, but Post shares public skepticism pending the appearance of the promised goods and investment. In addition, for these goods to lower prices in the domestic market by the promised 40 percent, they will likely have to be sold at a significant loss - making it probably that they are intended as a show of good faith to buy support for the as yet unknown terms of any future FDI. In the end, if there is anything more to this deal than a ham-handed PR stunt by the isolated HAT, we will be surprised. END COMMENT.

MARQUARDT